

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
Middlesboro, Kentucky

**REPORT OF AUDIT**  
Year Ended June 30, 2012

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## INDEPENDENT AUDITOR'S REPORT

September 21, 2012

Members of the Board of Education  
Middlesboro Independent School District  
Middlesboro, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Middlesboro Independent School District (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Special Revenue Funds, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

## Marr, Miller & Myers, PSC

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The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted auditing standards. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional information shown on pages 34 through 48 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 38 through 40 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information is the responsibility of the District and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Marr, Miller & Myers, PSC*

Certified Public Accountants

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
Middlesboro, Kentucky

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2012

The management of the Middlesboro Independent School District (District) offers readers this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to review the information presented here in conjunction with additional information found within the body of the audit.

**SUPERINTENDENT'S REVIEW OF THE YEAR**

During the year ended June 30, 2012, the Middlesboro Independent School District made several decisions that had a direct impact on the end of the year financial balance. Since we are scheduled to receive less SEEK funding and because we are declining in enrollment, it was evident that we needed to re-adjust our spending to guarantee an appropriate fiscal balance in succeeding years. Some of the steps initiated by the District were to assess our current level of staffing and evaluate all transportation costs for the District.

After reviewing the financial data and the impact of these different activities, the following actions were taken:

1. Staff numbers of certified and classified staff were downsized to reflect state and district guidelines.
2. Two days were eliminated from the school calendar.
3. Transportation budgets for field trips for schools were cut by 25%.
4. A van was purchased to reduce the number of bus trips with limited students and to reduce teacher mileage expenses.
5. Teaching staff at the alternative school was reduced by two.

The District also participated in some proactive activities to provide financial support for needed instructional resources. This year Middlesboro Primary, Intermediate, and Middle Schools received grants to fund different wellness activities.

The Middlesboro Independent School District has continued to participate in a reading program partially funded by The Elgin Foundation. The Elgin Foundation has additionally funded a dental program that guarantees dental benefits and coverage for students grades K-5.

Overall, this has been a financially successful year for the District. Although our funding from the state decreased, and continues to diminish, we have been able to maintain our overall fund balance. This is especially critical due to continuing financial shortfalls of state funding.

**FINANCIAL HIGHLIGHTS**

- The ending cash balance for the District was \$381,624 in 2012 and \$548,952 in 2011. The cash balances include \$40,202 and \$173,796 for 2012 and 2011, respectively, reserved for debt service payments, and \$124,510 and \$10 for 2012 and 2011, respectively, reserved for future construction projects.
- The General Fund had \$10,472,202 in revenue, excluding interfund transfers, which primarily consisted of the state program (SEEK) and property, utilities, and motor vehicle taxes. In 2012, the District received \$745,532 as compensation for loss of assets due to flood damage in 2011. Excluding interfund transfers, there were \$11,380,256 in General Fund expenditures.
- When funds are available, the District may use cash or sell bonds to build or renovate facilities within the school district. The projects must be identified on the District Facility Plan.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and management of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 7 and 8 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary fund is vending and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 9 through 12 of this report.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 19 through 33 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, general equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

**Net Assets for the period ending June 30, 2012**

Fiscal year 2012 government-wide net assets compared to 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Current assets	\$ 1,019,102	\$ 1,280,546
Capital assets	<u>6,527,431</u>	<u>6,879,367</u>
Total Assets	<u>\$ 7,546,533</u>	<u>\$ 8,159,913</u>
Current liabilities	\$ 893,975	\$ 996,285
Noncurrent liabilities	<u>2,810,272</u>	<u>3,371,477</u>
Total Liabilities	<u>\$ 3,704,247</u>	<u>\$ 4,367,762</u>
Net assets		
Investment in capital assets, net of related debt	\$ 3,155,954	\$ 2,942,795
Restricted	672,303	640,752
Unrestricted	<u>14,029</u>	<u>208,604</u>
Total Net Assets	<u>\$ 3,842,286</u>	<u>\$ 3,792,151</u>

The District had an overall decrease in unrestricted net assets of \$194,575, comprised of a decrease in business-type activities of \$6,338 and a decrease in governmental activities of \$188,237.

The following table presents a summary of revenues and expenditures, Governmental Funds only, for the fiscal years ended June 30:

	<u>2012</u>	<u>Percent</u>	<u>2011</u>	<u>Percent</u>
<b>REVENUES</b>				
Local revenue sources	\$ 2,822,915	20.10 %	\$ 2,881,129	19.46 %
State revenue sources	8,826,020	62.84	8,809,822	59.49
Federal sources	<u>2,396,699</u>	<u>17.06</u>	<u>3,116,884</u>	<u>21.05</u>
Total revenues	<u>14,045,634</u>	<u>100.00</u>	<u>14,807,835</u>	<u>100.00</u>
<b>EXPENDITURES</b>				
Instruction	8,887,383	63.28	9,381,279	63.35
Student support services	557,237	3.97	484,493	3.27
Instructional staff	851,954	6.07	769,110	5.19
District administration	625,751	4.46	539,372	3.64
School administration	834,799	5.94	841,747	5.69
Business	169,236	1.20	153,194	1.04
Plant operations and maintenance	1,525,432	10.86	1,239,939	8.37
Student transportation	532,469	3.79	462,805	3.13
Architectural/engineering	102,508	.73	103,758	.70
Community services activities	196,638	1.40	196,805	1.33
Debt service/lease obligations	<u>709,736</u>	<u>5.05</u>	<u>736,776</u>	<u>4.98</u>
Total expenditures	<u>14,993,143</u>	<u>106.75</u>	<u>14,909,278</u>	<u>100.69</u>
Excess revenues (expenditures)	<u>\$ (947,509)</u>	<u>(6.75)%</u>	<u>\$ (101,443)</u>	<u>(.69)%</u>

The majority of the District's revenue was derived from state revenue sources making up 62.84% of their revenue in 2012 as compared to 59.49% in 2011. Local revenue sources comprised 20.10% of total revenue in 2012 as compared to 19.46% in 2011.



MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

Instructional expenditures comprised 63.28% of the District's expenses for 2012 as compared to 63.35% in 2011. Plant operations and maintenance was the next largest consumption of revenues at 10.86% in 2012 as compared to 8.37% in 2011. The District's increase in utility costs is the main reason for the increased plant operations and maintenance costs. The District also incurred additional costs in the current year due to the clean-up and replacement costs of District property damaged in a flood.

### **Comments on Budget Comparisons**

In Kentucky, the public school fiscal year is July 1 to June 30. Other programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a 2011-12 budget with \$339,631 in contingency (3.90%).

- The District's total general fund revenues for the fiscal year ended June 30, 2012 were \$10,472,202.
- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual balance being \$1,759,603 more than budget or 20.20%. This is due primarily to recording on-behalf payments made by the State of Kentucky of \$1,955,671 that were not budgeted. When these are eliminated, revenues compared to budget were \$196,068 or 2.25% less than anticipated.
- The total cost of all general fund programs and services for the fiscal year ended June 30, 2012 were \$11,380,256.
- General fund budgeted expenditures compared to actual expenditures varied from line item to line item with the ending actual balance being \$2,064,385 more than budget or 22.16%. This is due primarily to recording on-behalf payments made by the State of Kentucky of \$1,955,671 that were not budgeted. When these are eliminated, expenditures compared to budget were \$108,714 or 1.17% more than anticipated.

### **FUTURE BUDGET IMPLICATIONS**

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a 2012-13 budget with \$390,123 in contingency (3.09%). Board action that impacts the finances includes:

- Expanding technology.
- Board match on Offers of Assistance from SFCC and Technology.
- Maintaining current staff levels.

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

Questions regarding this report should be directed to the Superintendent or to Ava Wilder, Director of Financial Services (606) 242-8800 or by mail at 220 North Twentieth Street, Middlesboro, KY 40965.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

STATEMENT OF NET ASSETS  
June 30, 2012

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 391,551	\$ (9,927)	\$ 381,624
Accounts receivable:			
Taxes – current	74,673	-	74,673
Accounts receivable	13,123	3,406	16,529
Intergovernmental – state	1,868	-	1,868
Intergovernmental - federal	512,453	17,162	529,615
Materials and supplies inventory	-	14,793	14,793
Total current assets	<u>993,668</u>	<u>25,434</u>	<u>1,019,102</u>
<b>NONCURRENT ASSETS</b>			
Capital assets, net	<u>6,442,613</u>	<u>84,818</u>	<u>6,527,431</u>
Total noncurrent assets	<u>6,442,613</u>	<u>84,818</u>	<u>6,527,431</u>
<b>TOTAL ASSETS</b>	<u>7,436,281</u>	<u>110,252</u>	<u>7,546,533</u>
 <u>LIABILITIES AND NET ASSETS</u>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	121,718	6,486	128,204
Accrued salaries and benefits payable	22,963	5,761	28,724
Deferred revenue	175,842	-	175,842
Current portion of bond obligations	530,000	-	530,000
Current portion of lease obligations	31,205	-	31,205
Total current liabilities	<u>881,728</u>	<u>12,247</u>	<u>893,975</u>
<b>NONCURRENT LIABILITIES</b>			
Noncurrent portion of bond obligations	2,670,000	-	2,670,000
Noncurrent portion of lease obligations	140,272	-	140,272
Total noncurrent liabilities	<u>2,810,272</u>	<u>-</u>	<u>2,810,272</u>
<b>TOTAL LIABILITIES</b>	<u>3,692,000</u>	<u>12,247</u>	<u>3,704,247</u>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	3,071,136	84,818	3,155,954
Restricted	652,778	19,525	672,303
Unrestricted	20,367	(6,338)	14,029
TOTAL NET ASSETS	<u>\$ 3,744,281</u>	<u>\$ 98,005</u>	<u>\$ 3,842,286</u>

The accompanying notes are an integral part of these financial statements.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2012

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
GOVERNMENTAL ACTIVITIES:				
Instruction	\$ 9,175,835	\$ -	\$ 5,224,317	\$ -
Support services:				
Student	582,392	-	25,155	-
Instructional staff	852,278	-	324	-
District administration	628,607	-	2,856	-
School administration	839,661	-	4,862	-
Business	169,236	-	-	-
Plant operations and maintenance	1,530,389	-	4,957	-
Student transportation	584,615	-	52,146	-
Architectural/engineering	102,508	-	-	-
Community services activities	198,904	-	2,266	-
Interest on long-term debt	144,641	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 14,809,066</u>	<u>\$ -</u>	<u>\$ 5,316,883</u>	<u>\$ -</u>
BUSINESS-TYPE ACTIVITIES:				
Food service	\$ 1,010,200	\$ 193,650	\$ 884,377	\$ -
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 1,010,200</u>	<u>\$ 193,650</u>	<u>\$ 884,377</u>	<u>\$ -</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 15,819,266</u>	<u>\$ 193,650</u>	<u>\$ 6,201,260</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**NET (EXPENSES) REVENUES AND  
CHANGES IN NET ASSETS**

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (3,951,518)		\$ (3,951,518)
(557,237)		(557,237)
(851,954)		(851,954)
(625,751)		(625,751)
(834,799)		(834,799)
(169,236)		(169,236)
(1,525,432)		(1,525,432)
(532,469)		(532,469)
(102,508)		(102,508)
(196,638)		(196,638)
<u>(144,641)</u>		<u>(144,641)</u>
<u>(9,492,183)</u>		<u>(9,492,183)</u>
	\$ 67,827	67,827
	<u>67,827</u>	<u>67,827</u>
		<u>(9,424,356)</u>

**GENERAL REVENUES**

Taxes			
Property	1,835,048	-	1,835,048
Motor vehicle	229,714	-	229,714
Utilities	588,501	-	588,501
Revenue in lieu of taxes – state and local	21,294	-	21,294
State and formula grants	5,905,836	-	5,905,836
Earnings on investments	19,788	208	19,996
Compensation for loss of assets	745,532	-	745,532
Other local revenues	<u>128,570</u>	<u>-</u>	<u>128,570</u>
Total general revenues	9,474,283	208	9,474,491
Operating transfers (net)	<u>34,488</u>	<u>(34,488)</u>	<u>-</u>
Total general revenues and transfers	<u>9,508,771</u>	<u>(34,280)</u>	<u>9,474,491</u>
Change in net assets	16,588	33,547	50,135
Net assets, July 1, 2011	<u>3,727,693</u>	<u>64,458</u>	<u>3,792,151</u>
Net assets, June 30, 2012	<u>\$ 3,744,281</u>	<u>\$ 98,005</u>	<u>\$ 3,842,286</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>ASSETS AND RESOURCES</b>				
Cash and cash equivalents	\$ 511,761	\$ (284,922)	\$ 164,712	\$ 391,551
Accounts receivable:				
Taxes – current	74,673	-	-	74,673
Accounts receivable	12,774	349	-	13,123
Intergovernmental - state	-	1,868	-	1,868
Intergovernmental - federal	14,341	498,112	-	512,453
<b>TOTAL ASSETS AND RESOURCES</b>	<u>\$ 613,549</u>	<u>\$ 215,407</u>	<u>\$ 164,712</u>	<u>\$ 993,668</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 104,798	\$ 16,920	\$ -	\$ 121,718
Accrued salaries and benefits payable	318	22,645	-	22,963
Deferred revenue	-	175,842	-	175,842
<b>TOTAL LIABILITIES</b>	<u>105,116</u>	<u>215,407</u>	<u>-</u>	<u>320,523</u>
<b>FUND BALANCES</b>				
Unassigned	47,075	(26,708)	-	20,367
Restricted				
Sick leave payable	58,808	-	-	58,808
Future construction projects	-	-	124,510	124,510
Debt service	-	-	40,202	40,202
Assigned				
Purchase obligations	40,264	26,708	-	66,972
Site based carryforward	362,286	-	-	362,286
<b>TOTAL FUND BALANCES</b>	<u>508,433</u>	<u>-</u>	<u>164,712</u>	<u>673,145</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 613,549</u>	<u>\$ 215,407</u>	<u>\$ 164,712</u>	<u>\$ 993,668</u>

The accompanying notes are an integral part of these financial statements.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET ASSETS  
June 30, 2012

<b>Total Fund Balances per fund financial statements</b>		<b>\$ 673,145</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, but they are reported in the statement of net assets		6,442,613
Certain liabilities, such as bonds payable and lease obligations, are not reported in this fund financial statement because they are not due and payable in the current period, but they are presented in the statement of net assets:		
Bonds payable	\$ (3,200,000)	
Lease obligations	<u>(171,477)</u>	<u>(3,371,477)</u>
<b>Total Net Assets for Governmental Activities</b>		<b><u>\$ 3,744,281</u></b>

The accompanying notes are an integral part of these financial statements.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2012

	General Fund	Special Revenue
<b>REVENUES</b>		
From local sources:		
Taxes		
Property	\$ 1,616,740	\$ -
Motor vehicle	229,714	-
Utilities	588,501	-
Tuition and fees	3,169	-
Earnings on investments	19,325	463
Other local revenues	88,661	36,740
Revenue in lieu of taxes – state and local	21,294	-
Intergovernmental – state	7,873,018	499,945
Intergovernmental – indirect federal	-	2,294,744
Intergovernmental – direct federal	31,780	70,175
<b>TOTAL REVENUES</b>	<u>10,472,202</u>	<u>2,902,067</u>
<b>EXPENDITURES</b>		
Instruction	6,439,714	2,447,669
Support services:		
Student	522,273	34,964
Instructional staff	642,805	209,149
District administration	595,133	7,216
School administration	829,119	5,680
Business	151,278	17,958
Plant operations and maintenance	1,525,432	-
Student transportation	511,795	20,674
Architectural/engineering	102,508	-
Community services activities	7,520	189,118
Payment of bonds/debt service	-	-
Payment of lease obligations	50,095	-
Payment of interest	2,584	-
<b>TOTAL EXPENDITURES</b>	<u>11,380,256</u>	<u>2,932,428</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(908,054)</u>	<u>(30,361)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Compensation for loss of assets	745,532	-
Operating transfers in	34,488	30,361
Operating transfers out	(30,361)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>749,659</u>	<u>30,361</u>
<b>NET CHANGES IN FUND BALANCES</b>	(158,395)	-
<b>FUND BALANCES, JULY 1, 2011</b>	<u>666,828</u>	-
<b>FUND BALANCES, JUNE 30, 2012</b>	<u>\$ 508,433</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 218,308	\$ 1,835,048
-	229,714
-	588,501
-	3,169
-	19,788
-	125,401
-	21,294
453,057	8,826,020
-	2,294,744
-	101,955
<u>671,365</u>	<u>14,045,634</u>
-	8,887,383
-	557,237
-	851,954
23,402	625,751
-	834,799
-	169,236
-	1,525,432
-	532,469
-	102,508
-	196,638
515,000	515,000
-	50,095
<u>142,057</u>	<u>144,641</u>
<u>680,459</u>	<u>14,993,143</u>
<u>(9,094)</u>	<u>(947,509)</u>
-	745,532
555,976	620,825
<u>(555,976)</u>	<u>(586,337)</u>
-	<u>780,020</u>
(9,094)	(167,489)
<u>173,806</u>	<u>840,634</u>
<u>\$ 164,712</u>	<u>\$ 673,145</u>



MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2012

**Total Net Change In Fund Balances – per fund financial statements** **\$ (167,489)**

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their  
estimated useful lives as depreciation expense.

Depreciation	\$ (536,708)	
Capital outlays	161,046	
Dispositions of flood damaged assets	<u>(5,356)</u>	(381,018)

Repayment of bond principal is an expenditure in the governmental funds, but  
the repayment reduces noncurrent liabilities in the statement of net assets and  
does not result in an expense in the statement of activities.

515,000

Payments on lease obligations are an expenditure in the governmental  
funds, but the payments reduce noncurrent lease obligations in the statement  
of net assets and do not result in an expense in the statement of activities.

50,095

**Change In Net Assets of Governmental Activities**

**\$ 16,588**

The accompanying notes are an integral part of these financial statements.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
GENERAL FUND  
Year Ended June 30, 2012

	Budgeted Amounts	
	<u>Original</u>	<u>Final</u>
<b>REVENUES</b>		
From local sources:		
Taxes		
Property	\$ 1,605,000	\$ 1,605,000
Motor vehicle	236,000	236,000
Utilities	668,000	668,000
Revenue in lieu of taxes – state and local	22,000	22,000
Tuition and fees	5,600	5,600
Earnings on investments	15,000	15,000
Other local revenues	66,300	66,300
Intergovernmental – state	6,048,699	6,048,699
Intergovernmental – direct federal	46,000	46,000
<b>TOTAL REVENUES</b>	<u>8,712,599</u>	<u>8,712,599</u>
<b>EXPENDITURES</b>		
Instruction	4,985,698	4,985,698
Support services:		
Student	415,510	415,510
Instructional staff	520,388	520,388
District administration	442,832	442,832
School administration	760,780	760,780
Business	137,492	137,492
Plant operations and maintenance	1,127,910	1,127,910
Student transportation	435,429	435,429
Architectural/engineering	89,375	89,375
Community services activities	8,147	8,147
Payment of lease obligations	50,095	50,095
Payment of interest	2,584	2,584
Contingency	339,631	339,631
<b>TOTAL EXPENDITURES</b>	<u>9,315,871</u>	<u>9,315,871</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(603,272)</u>	<u>(603,272)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Compensation for loss of assets	-	-
Operating transfers in	46,406	46,406
Operating transfers out	(25,000)	(25,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>21,406</u>	<u>21,406</u>
<b>NET CHANGES IN FUND BALANCE</b>	(581,866)	(581,866)
<b>FUND BALANCE, JULY 1, 2011</b>	<u>581,866</u>	<u>581,866</u>
<b>FUND BALANCE, JUNE 30, 2012</b>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

<u>Actual</u>	<u>Variance with Final Budget Favorable or (Unfavorable)</u>
\$ 1,616,740	\$ 11,740
229,714	(6,286)
588,501	(79,499)
21,294	(706)
3,169	(2,431)
19,325	4,325
88,661	22,361
7,873,018	1,824,319
31,780	(14,220)
<u>10,472,202</u>	<u>1,759,603</u>
6,439,714	(1,454,016)
522,273	(106,763)
642,805	(122,417)
595,133	(152,301)
829,119	(68,339)
151,278	(13,786)
1,525,432	(397,522)
511,795	(76,366)
102,508	(13,133)
7,520	627
50,095	-
2,584	-
-	339,631
<u>11,380,256</u>	<u>(2,064,385)</u>
<u>(908,054)</u>	<u>(304,782)</u>
745,532	745,532
34,488	(11,918)
(30,361)	(5,361)
<u>749,659</u>	<u>728,253</u>
(158,395)	423,471
<u>666,828</u>	<u>84,962</u>
<u>\$ 508,433</u>	<u>\$ 508,433</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
SPECIAL REVENUE FUND  
Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget Favorable or (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
From local sources:				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Motor vehicle	-	-	-	-
Utilities	-	-	-	-
Revenue in lieu of taxes - state and local	-	-	-	-
Tuition and fees	-	-	-	-
Earnings on investments	100	100	463	363
Other local revenues	-	13,980	36,740	22,760
Intergovernmental - state	478,072	541,939	499,945	(41,994)
Intergovernmental - federal	<u>1,829,596</u>	<u>1,950,586</u>	<u>2,364,919</u>	<u>414,333</u>
<b>TOTAL REVENUES</b>	<u>2,307,768</u>	<u>2,506,605</u>	<u>2,902,067</u>	<u>395,462</u>
<b>EXPENDITURES</b>				
Instruction	1,888,141	2,055,522	2,447,669	(392,147)
Support services:				
Student	33,448	48,927	34,964	13,963
Instructional staff	185,955	187,351	209,149	(21,798)
District administration	8,825	9,645	7,216	2,429
School administration	2,165	4,755	5,680	(925)
Business	11,373	17,854	17,958	(104)
Plant operations and maintenance	-	-	-	-
Student transportation	9,950	22,410	20,674	1,736
Community services activities	<u>192,911</u>	<u>185,141</u>	<u>189,118</u>	<u>(3,977)</u>
<b>TOTAL EXPENDITURES</b>	<u>2,332,768</u>	<u>2,531,605</u>	<u>2,932,428</u>	<u>(400,823)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(25,000)	(25,000)	(30,361)	(5,361)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	<u>25,000</u>	<u>25,000</u>	<u>30,361</u>	<u>5,361</u>
<b>NET CHANGES IN FUND BALANCE</b>	-	-	-	-
<b>FUND BALANCE, JULY 1, 2011</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE, JUNE 30, 2012</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
June 30, 2012

	<u>ASSETS</u>	<u>Food Service</u>
CURRENT ASSETS		
Cash and cash equivalents		\$ (9,927)
Materials and supplies inventory		14,793
Accounts receivable:		
Accounts receivable		3,406
Intergovernmental - federal		<u>17,162</u>
Total current assets		<u>25,434</u>
NONCURRENT ASSETS		
Capital assets, net		<u>84,818</u>
TOTAL ASSETS		<u>110,252</u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES		
Accounts payable		6,486
Accrued salaries and benefits payable		<u>5,761</u>
TOTAL CURRENT LIABILITIES		<u>12,247</u>
NET ASSETS		
Investment in capital assets		84,818
Unassigned		(6,338)
Restricted		
Sick leave payable		4,732
Nonspendable – inventories		<u>14,793</u>
TOTAL NET ASSETS		<u>\$ 98,005</u>

The accompanying notes are an integral part of these financial statements.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
Year Ended June 30, 2012

	<u>Food Service</u>
OPERATING REVENUES	
Sales	\$ 193,650
TOTAL OPERATING REVENUES	<u>193,650</u>
OPERATING EXPENSES	
Salaries	348,659
Employee benefits	152,712
Purchased services	10,980
Supplies and materials	487,841
Depreciation	10,008
Operating transfers	<u>34,488</u>
TOTAL OPERATING EXPENSES	<u>1,044,688</u>
OPERATING INCOME (LOSS)	<u>(851,038)</u>
NON-OPERATING REVENUES (EXPENSES)	
Operating grants-federal	762,792
Operating grants-state	72,335
Child nutrition program – donated commodities	49,250
Interest income	<u>208</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>884,585</u>
CHANGES IN NET ASSETS	33,547
NET ASSETS, JULY 1, 2011	<u>64,458</u>
NET ASSETS, JUNE 30, 2012	<u>\$ 98,005</u>

The accompanying notes are an integral part of these financial statements.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended June 30, 2012

	<u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales	\$ 200,330
Cash payments for salaries	(343,327)
Cash payments for employee benefits	(152,712)
Cash payments for purchased services	(10,980)
Cash payments for supplies and materials	(489,037)
Cash payments for other operating expenses	(34,488)
Net cash provided (used) by operating activities	<u>(830,214)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	<u>(39,090)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of interest	208
Receipt of grants	835,127
Receipt of donated commodities	49,250
Net cash provided (used) by investing activities	<u>884,585</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,281
CASH AND CASH EQUIVALENTS, JULY 1, 2011	<u>(25,208)</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2012	<u>\$ (9,927)</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (851,038)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Depreciation	10,008
Changes in assets and liabilities:	
Accounts receivable	9,217
Accounts payable	(3,733)
Accrued salaries and benefits payable	5,332
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (830,214)</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Donated commodities received from federal government	<u>\$ 49,250</u>
On-behalf payments from state government	<u>\$ 63,081</u>

The accompanying notes are an integral part of these financial statements.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2012

	<u>ASSETS</u>	<u>AGENCY</u>
CURRENT ASSETS		
Cash and cash equivalents		\$ 116,373
Receivables		<u>1,255</u>
TOTAL ASSETS		<u>117,628</u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES		
Accounts payable		230
Due to students		<u>117,398</u>
TOTAL LIABILITIES		<u>117,628</u>
NET ASSETS		<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.



MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies that affect the significant elements of the Middlesboro Independent School District are summarized as follows:

**REPORTING ENTITY**

The Middlesboro Independent Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Middlesboro Independent School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB) pronouncement since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Middlesboro Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statement of the following organization is included in the accompanying financial statements:

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT FINANCE CORPORATION**

The Middlesboro Independent Board of Education resolved to authorize the establishment of the Middlesboro Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Board Act and KRS 273 and KRS Section 58.180) as an agency of the District for financing the costs of school building facilities. The Board members of the Middlesboro Independent Board of Education also comprise the corporation's Board of Directors.

**BASIS OF PRESENTATION**

**Government-Wide Financial Statements:** The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between governmental and business-type activities of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service,

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes and revenues not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements:** Fund financial statements report detailed information about the District. Their focus is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund's operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 38 through 40. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by the Proprietary Fund).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

(D) Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Funds)

- (A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contributions of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- (A) The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using either modified accrual for governmental funds or accrual basis for proprietary and fiduciary funds.

**Revenues, Exchange and Nonexchange Transactions:** Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recognized in the fiscal year when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period of the District is sixty days after year end.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue: The District reports deferred revenue on its statement of net assets and governmental funds balance sheet. In both the government-wide and governmental fund statements, grants that are intended to finance future periods are reported as deferred revenue. In subsequent periods, the liability for deferred revenue is removed from the statement of net assets and governmental funds balance sheet and revenue is recognized.

Expenditures/Expenses: On the accrual basis of accounting, expenses are recorded at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

**CASH AND INVESTMENTS**

The District maintains a cash and investment pool used by all funds. The cash and investment pool has the same characteristics as demand deposits. Each fund type's portion of this pool is displayed in the financial statements as cash and cash equivalents in that fund. The District utilizes a financial institution to service bonded debt as principal and interest payments come due. The monies are either maintained in a central bank account or used to purchase legal investments.

It is the policy of the District to value investment contracts and money market investments with a maturity of one year or less at the time of purchase at cost or amortized cost. Investment contracts and money market investments that had a remaining maturity of greater than one year at the time of purchase are reported at fair value.

The Kentucky Revised Statutes authorized the District to invest in United States and State of Kentucky bonds, notes and other obligations; bank certificates of deposit; bankers' acceptances; and commercial paper notes rated prime and issued by United States corporations. It is the District's policy to invest in all of the above types of investments. Under existing Kentucky statutes, all investment earnings accrue to the general and food service funds except certain trust funds and those funds individually authorized by Board resolution.

**PREPAID ASSETS**

Payments made that will benefit periods beyond June 30, 2012 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**INVENTORY**

On government-wide financial statements, inventories are presented at cost or using the first in, first out (FIFO) method and are expensed when used.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

On fund financial statements, inventories are valued at cost while inventories of proprietary funds are stated at lower of cost or market. For all funds, cost is determined using the FIFO method, and are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time of purchase. Reported inventories in these funds are equally offset by a fund balance reserve, which indicates they do not represent available spendable resources. Inventories of proprietary funds consist of donated and purchased food.

**CAPITAL ASSETS AND DEPRECIATION**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by proprietary funds are reported on both statement types.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District follows the policy of not capitalizing assets with a cost of less than \$1,000 with the exception of assets acquired with Technology Funds, which there is no threshold, and a useful life of less than 1 year. The District does not possess any infrastructure.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both governmental fund capital assets and proprietary fund capital assets:

<u>Description</u>	<u>Useful Life</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
General equipment	7 years

**INTERFUND ACTIVITY**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Sales of goods and services between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

On fund financial statements, short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the statement of net assets, except for amounts due between governmental and business-type activities, which are presented as internal balances.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**ACCUMULATED UNPAID SICK LEAVE BENEFITS**

Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a reservation of fund balance using the vesting method. The amount is based on the sick leave accumulated at June 30 by those employees who are currently eligible to receive termination payments and those employees for whom it is probable they will become eligible to receive termination benefits in the future. The criteria for determining the vacation and sick leave liability is derived from Board policy, negotiated agreements, and state laws.

The entire compensated absences reservation is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as a reservation to the extent that the amounts are expected to be paid using expendable available financial resources. For proprietary funds, the entire amount of compensated absences is recorded as an expense and liability of the fund.

**ON-BEHALF PAYMENTS FOR FRINGE BENEFITS**

The District recognizes as revenues and expenses contributions made by the State of Kentucky for health insurance and flexible spending accounts on behalf of the District's employees. In fiscal year 2012, the State made contributions of \$2,018,752, consisting of \$1,955,671 for governmental funds and \$63,081 for the proprietary fund.

**ACCRUED LIABILITIES AND LONG-TERM DEBT**

All accrued liabilities and long-term debt are reported in the government-wide financial statements as well as the proprietary fund financial statements.

For governmental fund financial statements, the accrued liabilities are generally reported as a governmental fund liability if due for payment as of the balance sheet date regardless of whether they will be liquidated with current financial resources. However, claims and judgments and compensated absences paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources. Long-term debt paid from governmental funds is not recognized as a liability in the fund financial statements until due.

**GOVERNMENTAL FUND BALANCE RESERVES**

The District records reservations for portions of governmental fund balances which are legally segregated for specific future use or which do not represent available spendable resources and therefore not available for appropriation. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Reservations of fund balance are established for sick leave, debt service and capital projects.

**RESTRICTED RESOURCES**

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**NET ASSETS**

Net assets represent the difference between assets and liabilities. Investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools.

CONTRIBUTIONS OF CAPITAL

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

BUDGETARY PROCESS

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than U.S. Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not after fiscal year end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All unencumbered budget appropriations lapse at year-end.

NOTE 2 – CASH AND CASH EQUIVALENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation insurance.

Under the depository contract, the District, at its own discretion, invests funds in time deposits and certificates of deposit provided by the depository bank at interest rates approximating United States Treasury Bill rates.

At June 30, 2012, the carrying amount of the District's deposits was \$381,624 and the bank balance was \$1,751,938. The entire bank balance throughout the year was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)**

The deposits were deemed collateralized under Kentucky Law during the year and the District maintains copies of all safekeeping receipts. The following is disclosed:

- a. Name of banks utilized during fiscal year: Community Trust Bank and First State Bank.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$2,421,386.
- c. Largest cash, savings and time deposit combined account balance amounted to \$2,494,159 and occurred during the month of May.
- d. Total amount of FDIC coverage at the time of largest combined balance was \$250,000 per bank.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risk are as follows:

- |            |   |
|------------|---|
| Category 1 | Deposits, which are insured or collateralized with securities, held by the District or by its agent in the District's name.                       |
| Category 2 | Deposits, which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. |
| Category 3 | Deposits, which are not collateralized or insured.  |

Based on these three levels of risk, all of the District's cash deposits are classified as Category 1 and 2.

**NOTE 3 – PROPERTY TAXES**

The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. The assessed value of the certified roll, upon which the levy for the 2012 fiscal year was based, was \$399,948,690. The tax rates assessed for the year ended June 30, 2012 to finance general fund operations were \$.487 per \$100 valuation for real estate and \$.489 for tangible property and motor vehicles. The District committed \$.059 of the levy to the FSPK Fund. Taxes are due on December 31, and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2012 were ninety-two percent of the tax levies. Delinquent taxes are allocated to the general fund. The District records taxes receivable only for the amounts collected during the next sixty days from its fiscal year end.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.



MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 3 – PROPERTY TAXES (CONTINUED)**

At June 30, 2012, the components of taxes receivable were as follows:

Motor vehicle	\$ 15,971
General property tax	26,028
Utilities tax	<u>32,674</u>
	<u>\$ 74,673</u>

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2012 consisted of taxes, accounts (rent and student fees), interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds.

**NOTE 5 – CAPITAL ASSETS**

A summary of capital assets activity during the fiscal year follows:

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2012</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Land	\$ 177,607	\$ -	\$ -	\$ 177,607
Land improvements	655,236	-	-	655,236
Buildings and improvements	12,437,023	-	-	12,437,023
Technology equipment	1,468,374	155,351	50,621	1,573,104
Vehicles	1,154,025	-	-	1,154,025
General equipment	<u>670,301</u>	<u>5,695</u>	<u>-</u>	<u>675,996</u>
Totals at cost	<u>16,562,566</u>	<u>161,046</u>	<u>50,621</u>	<u>16,672,991</u>
Less accumulated depreciation:				
Land improvements	508,719	24,997	-	533,716
Buildings and improvements	6,537,251	323,915	-	6,861,166
Technology equipment	1,266,977	95,183	45,265	1,316,895
Vehicles	913,823	52,145	-	965,968
General equipment	<u>512,165</u>	<u>40,468</u>	<u>-</u>	<u>552,633</u>
Total accumulated depreciation	<u>9,738,935</u>	<u>536,708</u>	<u>45,265</u>	<u>10,230,378</u>
Governmental activities capital assets, net	<u>\$ 6,823,631</u>	<u>\$ (375,662)</u>	<u>\$ (5,356)</u>	<u>\$ 6,442,613</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Food service equipment	\$ 208,915	\$ 36,645	\$ -	\$ 245,560
Technology equipment	22,168	2,445	-	24,613
Vehicles	<u>8,650</u>	<u>-</u>	<u>-</u>	<u>8,650</u>
Totals at cost	<u>239,733</u>	<u>39,090</u>	<u>-</u>	<u>278,823</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2012</u>
Less accumulated depreciation:				
Food service equipment	153,179	9,600	-	162,779
Technology equipment	22,168	408	-	22,576
Vehicles	<u>8,650</u>	<u>-</u>	<u>-</u>	<u>8,650</u>
Total accumulated depreciation	<u>183,997</u>	<u>10,008</u>	<u>-</u>	<u>194,005</u>
Business-type activities capital assets, net	<u>\$ 55,736</u>	<u>\$ 29,082</u>	<u>\$ -</u>	<u>\$ 84,818</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 444,142
Support services:	
Student	25,155
Instructional staff	324
District administration	2,856
School administration	4,862
Plant operations and maintenance	4,957
Student transportation	52,146
Community services activities	<u>2,266</u>
Total governmental activities	<u>\$ 536,708</u>

**NOTE 6 – BONDED DEBT AND LEASE OBLIGATIONS**

The original amount of each bond issue, the issue date, and interest rates are summarized as follows:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>
2002	\$ 2,170,000	2.3% to 4.0%
2004	475,000	4.75%
2005	765,000	3.25% to 3.6%
2006	1,965,000	3.9% to 4.4%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund), is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Middlesboro Independent School District and the Middlesboro Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 6 – BONDED DEBT AND LEASE OBLIGATIONS (CONTINUED)**

In 1990, the District entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2012 for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Middlesboro Independent School District</u>		<u>Kentucky School Facility Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2012-13	\$ 465,113	\$ 89,395	\$ 64,887	\$ 32,156	\$ 651,551
2013-14	184,520	76,859	60,480	29,673	351,532
2014-15	192,157	70,035	62,843	27,309	352,344
2015-16	199,529	62,775	65,471	24,681	352,456
2016-17	204,913	55,136	60,087	22,063	342,199
2017-18	93,859	49,284	46,141	19,760	209,044
2018-19	101,854	45,210	48,146	17,756	212,966
2019-20	104,621	40,874	50,379	15,522	211,396
2020-21	112,287	36,291	52,713	13,186	214,477
2021-22	119,951	31,355	55,049	10,853	217,208
2022-23	122,378	26,175	57,622	8,277	214,452
2023-24	124,684	20,864	60,316	5,584	211,448
2024-25	132,107	15,276	27,893	2,764	178,040
2025-26	137,493	9,345	27,507	1,545	175,890
2026-27	143,646	3,160	21,354	470	168,630
	<u>\$ 2,439,112</u>	<u>\$ 632,034</u>	<u>\$ 760,888</u>	<u>\$ 231,599</u>	<u>\$ 4,063,633</u>

In 2007, the District entered into negotiations to purchase technology equipment. A non-interest bearing technology loan in the amount of \$153,656 was obtained through the KISTA New Market Tax Credit Program, and was shown as a lease obligation in the accompanying financial statements. Principal payments made during the fiscal year were \$15,366, which paid off the debt.

The District has purchased four buses through KISTA. The original amount of each lease obligation, lease date, and purpose are summarized as follows:

<u>Lease</u>	<u>Original Amount</u>	<u>Purpose</u>
Series 2006 (1)	\$ 80,233	KISTA – Bus purchase
Series 2006 (2)	80,396	KISTA – Bus purchase
Series 2008	72,693	KISTA – Bus purchase
Series 2009	77,265	KISTA – Bus purchase

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 6 – BONDED DEBT AND LEASE OBLIGATIONS (CONTINUED)**

Principal payments in the amount of \$30,228 were paid during the fiscal year.

The minimum obligations at June 30, 2012 for these lease obligations are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012-13	\$ 31,205	\$ 6,110	\$ 37,315
2013-14	32,266	5,066	37,332
2014-15	31,854	3,949	35,803
2015-16	31,476	2,820	34,296
2016-17	23,170	1,669	24,839
2017-18	14,153	814	14,967
2018-19	7,353	287	7,640
	<u>\$ 171,477</u>	<u>\$ 20,715</u>	<u>\$ 192,192</u>

The District entered into a lease agreement with Kubota Leasing in the amount of \$17,000 for the purchase of a tractor. Interest was being charged at 7.814%. Principal payments in the amount of \$4,501 were paid during the fiscal year, which paid off the debt.

The assets under capital lease are being depreciated. This depreciation is included in total depreciation expense and is allocated to governmental functions.

**NOTE 7 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the workers' compensation fund are based on premium rates established by such funds in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term. The liability insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro-rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund, however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated, which includes workers' compensation insurance.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 7 – RISK MANAGEMENT (CONTINUED)**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency). There were no instances of noncompliance noted.

**NOTE 8 – RETIREMENT PLANS**

**Pension Plan**

The Middlesboro Independent School System contributes to the Teachers' Retirement System of Kentucky ("KTRS"), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 181 Section 220 through Chapter 181 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Contribution rates are established by KRS. Members, after July 1, 2008, are required to contribute 10.855% of their salaries to KTRS. For members before July 1, 2008, the contribution rate is 10.355%. The Commonwealth of Kentucky is required to contribute 14.105% of salaries for members after July 1, 2008 and 13.605% for members before July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

The Middlesboro Independent School System's total payroll for the year was \$8,955,588. The payroll for employees covered under KTRS was \$7,060,563. For the year ended June 30, 2012, the Commonwealth contributed \$772,855 to KTRS for the benefit of participating employees. The School Districts' contribution to KTRS for the year ending June 30, 2012 was \$191,531, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employees Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 6% for employees hired after September 1, 2008 and 5% for employees hired before this date and a Board contribution of 18.96% of the employee's total compensation subject to contribution. The contribution requirement for CERS for the year ended June 30, 2012 was \$404,951, which consisted of \$318,532 from the Board and \$86,419 from the employees.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

CERS does not make separate measurements of assets and pension benefit obligation for individual employers. As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost of the vested benefits of the District's portion of the Plan assets.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 8 – RETIREMENT PLANS (CONTINUED)**

**Medical Insurance Plan**

In addition to the pension benefits described above, Kentucky Revised Statute 181.875 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees, as described in the plan description, and investment interest help meet the medical expenses of the plan.

**NOTE 9 – CONTINGENCIES**

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

**NOTE 10 – TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	310	Debt Service	Debt service requirement	\$ 101,496
Operating	1	Special Revenue	Matching, Phase II	30,361
Operating	320	Debt Service	Debt service requirement	454,480
Operating	51	General	Indirect costs	34,488

**NOTE 11 – INTERFUND RECEIVABLES AND PAYABLES**

There were no interfund receivables or payables at June 30, 2012.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

NOTE 12 – DEFICIT OPERATING/FUND BALANCES

The District had current year operating deficits in governmental funds, as follows:

General fund	<u>\$ (158,395)</u>
Building/FSPK fund	<u>\$ (9,094)</u>

NOTE 13 – SUBSEQUENT EVENTS

We evaluated events and transactions that occurred after the balance sheet date as potential subsequent events. We performed this evaluation through September 21, 2012, the date on which we issued our financial statements.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2012

	Seek Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Funds	Total Nonmajor Governmental Funds
<b>ASSETS AND RESOURCES</b>					
Cash and cash equivalents	\$ -	\$ 164,702	\$ 10	\$ -	\$ 164,712
<b>TOTAL ASSETS AND RESOURCES</b>	<u>\$ -</u>	<u>\$ 164,702</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 164,712</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Restricted					
Future construction projects	\$ -	\$ 124,500	\$ 10	\$ -	\$ 124,510
Debt service	-	<u>40,202</u>	-	-	<u>40,202</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ -</u>	<u>\$ 164,702</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 164,712</u>



MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2012

	Seek Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Funds	Total Nonmajor Governmental Funds
<b>REVENUES</b>					
From local sources:					
Taxes					
Property	\$ -	\$ 218,308	\$ -	\$ -	\$ 218,308
Intergovernmental - state	<u>124,898</u>	<u>227,078</u>	<u>-</u>	<u>101,081</u>	<u>453,057</u>
TOTAL REVENUES	<u>124,898</u>	<u>445,386</u>	<u>-</u>	<u>101,081</u>	<u>671,365</u>
<b>EXPENDITURES</b>					
Payment of bonds	-	-	-	515,000	515,000
Payment of interest	-	-	-	142,057	142,057
Support services:					
District administration	<u>23,402</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,402</u>
TOTAL EXPENDITURES	<u>23,402</u>	<u>-</u>	<u>-</u>	<u>657,057</u>	<u>680,459</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>101,496</u>	<u>445,386</u>	<u>-</u>	<u>(555,976)</u>	<u>(9,094)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	-	-	-	555,976	555,976
Operating transfers out	<u>(101,496)</u>	<u>(454,480)</u>	<u>-</u>	<u>-</u>	<u>(555,976)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(101,496)</u>	<u>(454,480)</u>	<u>-</u>	<u>555,976</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	-	(9,094)	-	-	(9,094)
FUND BALANCES, JULY 1, 2011	<u>-</u>	<u>173,796</u>	<u>10</u>	<u>-</u>	<u>173,806</u>
FUND BALANCES, JUNE 30, 2012	<u>\$ -</u>	<u>\$ 164,702</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 164,712</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES – ACTIVITY FUNDS  
MIDDLESBORO HIGH SCHOOL  
Year Ended June 30, 2012

ACCOUNTS:	Cash Balances July 1, 2011	Receipts	Disbursements	Interfund Transfers
Activity Allotment	\$ 4,151	\$ -	\$ 1,695	\$ -
Athletics	15,659	91,367	79,850	(100)
Attendance	332	-	400	70
Audio Visual Club	100	-	-	-
Band	4	-	-	-
Beta Club	519	816	774	-
Choir	235	770	982	200
Class of 2012	1,568	51,812	52,095	-
DECA	13	455	465	-
Drama	58	-	-	-
FBLA	15	541	440	-
FCCLA (FHA)	267	-	192	-
FEA	198	-	-	-
General	8,803	33,301	31,916	(422)
Jacket Patch	594	739	1,200	-
JROTC	665	1,455	1,432	-
Journalism	1,170	18,486	19,087	150
Library	85	270	212	-
NFL	5	-	-	-
Parking	78	250	293	-
Prom	1,984	11,125	10,866	-
Student Council	851	65	-	-
Teachers	239	3,590	3,674	102
Technology	252	500	-	-
Textbooks	152	-	41	-
VICA	19	-	-	-
Year Book	5	-	-	-
Totals	<u>\$ 38,021</u>	<u>\$ 215,542</u>	<u>\$ 205,614</u>	<u>\$ -</u>

Cash Balances June 30, 2012	Accounts Receivable June 30, 2012	Accounts Payable June 30, 2012	Fund Balances June 30, 2012
\$ 2,456	\$ -	\$ -	\$ 2,456
27,076	-	-	27,076
2	-	-	2
100	-	-	100
4	-	-	4
561	-	-	561
223	-	-	223
1,285	200	-	1,485
3	-	-	3
58	-	-	58
116	-	-	116
75	-	-	75
198	-	-	198
9,766	-	(36)	9,730
133	-	-	133
688	-	-	688
719	-	-	719
143	-	-	143
5	-	-	5
35	-	-	35
2,243	-	-	2,243
916	-	-	916
257	450	-	707
752	-	-	752
111	-	-	111
19	-	-	19
5	-	-	5
<u>\$ 47,949</u>	<u>\$ 650</u>	<u>\$ (36)</u>	<u>\$ 48,563</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES - ACTIVITY FUNDS  
Year Ended June 30, 2012

	Cash Balances <u>July 1, 2011</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>
MIDDLESBORO MIDDLE SCHOOL All funds	<u>\$ 7,182</u>	<u>\$ 22,207</u>	<u>\$ 18,546</u>	<u>\$ -</u>
MIDDLESBORO PRIMARY SCHOOL All funds	<u>\$ 22,251</u>	<u>\$ 15,768</u>	<u>\$ 13,739</u>	<u>\$ -</u>
MIDDLESBORO INTERMEDIATE SCHOOL All funds	<u>\$ 30,147</u>	<u>\$ 17,215</u>	<u>\$ 14,061</u>	<u>\$ -</u>

Cash Balances <u>June 30, 2012</u>	Accounts Receivable June 30, <u>2012</u>	Accounts Payable June 30, <u>2012</u>	Fund Balances June 30, <u>2012</u>
<u>\$ 10,843</u>	<u>\$ 108</u>	<u>\$ (110)</u>	<u>\$ 10,841</u>
<u>\$ 24,280</u>	<u>\$ 88</u>	<u>\$ (84)</u>	<u>\$ 24,284</u>
<u>\$ 33,301</u>	<u>\$ 409</u>	<u>\$ -</u>	<u>\$ 33,710</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award</u>	<u>Federal Disbursements</u>
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
SPECIAL EDUCATION CLUSTER (IDEA)				
Special Education – Grants to States (IDEA, Part B)	84.027A	3810002-11	\$ 344,511	\$ 318,343 *
Special Education – Grants to States (IDEA, Part B)	84.027	3810002-10	348,855	16,345 *
Special Education – Grants to States (IDEA, Part B)	84.027	3810002-09	371,417	11,304 *
Special Education – Preschool Grants (IDEA, Preschool)	84.173	3800002-11	20,215	19,787 *
Special Education – Preschool Grants (IDEA, Preschool)	84.173	3800002-10	20,220	375 *
Special Education – Grants to States (IDEA, Part B), Recovery Act	84.391	4810002-09	420,659	52,622 *
Special Education – Preschool Grants (IDEA, Preschool), Recovery Act	84.392	4800002-09	28,292	44 *
Total Special Education Cluster (IDEA)				<u>418,820</u>
TITLE I, PART A CLUSTER				
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	3100002-11	961,771	853,556 *
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	3100002-10	882,541	32,429 *
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010A	3100202-11	49,737	20,763 *
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	3142	8,074	8,074 *
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	3100202-10	71,643	67,780 *
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	3100202-09	140,053	44,747 *
Title I Grants to Local Educational Agencies, Recovery Act	84.389A	4100002-09	542,365	33,617 *
Total Title I, Part A Cluster				<u>1,060,966</u>
EDUCATIONAL TECHNOLOGY STATE GRANTS CLUSTER				
Education Technology State Grants	84.318	3210002-11	2,942	163
Education Technology State Grants	84.318	3210002-10	2,942	1,617
Education Technology State Grants	84.318	3210002-09	36,223	1,263
Education Technology State Grants Recovery Act (Enhancing Education through Technology Program)	84.386A	4210002-09	16,594	3,526

\* Denotes major program

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award</u>	<u>Federal Disbursements</u>
<b>EDUCATIONAL TECHNOLOGY STATE GRANTS CLUSTER (CONTINUED)</b>				
Education Technology State Grants Recovery Act (Enhancing Education Through Technology Program)	84.386A	4210002-09	45,216	<u>277</u>
Total Educational Technology State Grants Cluster				<u>6,846</u>
<b>SCHOOL IMPROVEMENT GRANTS CLUSTER</b>				
School Improvement Grant	84.377	3100302-09	350,000	<u>136,722</u>
Total School Improvement Grants Cluster				<u>136,722</u>
Safe and Drug-Free Schools and Communities-State Grants	84.186	3410002-09	11,442	4,014
Vocational Education – Basic Grants to States	84.048	4621232-11	20,401	12,021
Vocational Education – Basic Grants to States	84.048	4621132-10	19,659	3,729
Vocational Education – Basic Grants to States	84.048	4621032-09	16,769	1,288
Vocational Education – Basic Grants to States	84.048	3488	19,435	3,304
Improving Teacher Quality State Grants	84.367A	3230002-11	125,425	116,194
Improving Teacher Quality State Grants	84.367A	3230002-10	145,547	14,649
Improving Teacher Quality State Grants	84.367	3230002-09	145,730	6,666
Twenty-First Century Community Learning Centers	84.287	3400002-11	5,000	4,241
Twenty-First Century Community Learning Centers	84.287	3400002-10	79,500	68,160
Twenty-First Century Community Learning Centers	84.287	3400002-09	5,000	2,180
Twenty-First Century Community Learning Centers	84.287	3400002-08	132,000	27,687
Rural Education	84.358	3140002-11	31,306	10,165
Rural Education	84.358	3140002-10	41,036	18,427
Rural Education	84.358	3140002-09	38,523	2,932
Education Jobs Fund	84.410	4411	384,551	<u>375,910 *</u>
Total U.S. Department of Education				<u>\$ 2,294,921</u>
<b><u>U.S. Department of Agriculture</u></b>				
Passed through State Department of Education:				
<b>CHILD NUTRITION CLUSTER</b>				
National School Breakfast Program	10.553	7760005-12	\$182,834	\$ 182,834 *
		7760005-11	52,547	52,547 *
National School Lunch Program	10.555	7750002-12	357,592	357,592 *
		7750002-11	98,196	98,196 *
Summer Food Service Program for Children	10.559	7740023-12	18,041	18,041 *
Summer Food Service Program for Children		7740023-11	11,110	11,110 *
Summer Food Service Program for Children	10.559	7690024-12	91	91 *
Summer Food Service Program for Children		7690024-11	1,773	<u>1,773 *</u>
Total Child Nutrition Cluster				<u>722,184</u>

\* Denotes major program

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award</u>	<u>Federal Disbursements</u>
<u>U.S. Department of Agriculture (Continued)</u>				
EMERGENCY FOOD ASSISTANCE CLUSTER				
Emergency Food Assistance Program	10.569		49,250	<u>49,250</u>
Total Emergency Food Assistance Cluster				<u>49,250</u>
Fresh Fruit and Vegetable Program	10.582	7720012-11 7720012-10	25,652 14,955	25,652 <u>14,955</u>
Total U.S. Department of Agriculture				<u>\$ 812,041</u>
<u>U.S. Department of Defense</u>				
Junior Reserve Officers' Training Corps	12.000	5042	\$ 65,530	<u>\$ 65,530</u>
Total U.S. Department of Defense				<u>\$ 65,530</u>
<u>Appalachian Regional Commission</u>				
Appalachian Research, Technical Assistance and Demonstration Project	23.011	6882	\$ 5,000	<u>\$ 4,124</u>
Total Appalachian Regional Commission				<u>\$ 4,124</u>
Total Expenditures of Federal Awards				<u>\$ 3,176,616</u>

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Middlesboro Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2012

SUMMARY OF AUDIT RESULTS

1. We have issued an unqualified opinion on the basic financial statements of the Middlesboro Independent School District.
2. No material weakness(es) were identified in our audit of the financial statements.
3. No significant deficiencies were identified in our audit of the financial statements.
4. No material noncompliance was identified in our audit of the financial statements.
5. No significant deficiencies were noted in our audit of internal control over major programs.
6. We have issued an unqualified opinion on compliance for major programs.
7. The audit did not disclose any audit findings, which we are required to report under Section .510(a) of A-133.
8. The programs tested as major programs included:

	<u>CFDA</u>
TITLE I, PART A CLUSTER	
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010A
Title I Grants to Local Educational Agencies, Recovery Act	84.389A
CHILD NUTRITION CLUSTER	
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559
National School Breakfast Program	10.553
SPECIAL EDUCATION CLUSTER (IDEA)	
Special Education – Preschool Grants (IDEA, Preschool)	84.173
Special Education – Grants to States (IDEA, Part B)	84.027
Special Education – Grants to States (IDEA, Part B)	84.027A
Special Education – Grants to States (IDEA, Part B), Recovery Act	84.391
Special Education – Preschool Grants (IDEA, Preschool), Recovery Act	84.392
Education Jobs Fund	84.410

9. The threshold for distinguishing Types A and B programs was \$300,000.
10. Middlesboro Independent School District was determined to be a high risk auditee.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2012

NONE

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 21, 2012

Members of the Board of Education  
Middlesboro Independent School District  
Middlesboro, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Middlesboro Independent School District as of and for the year ended June 30, 2012, which collectively comprise the Middlesboro Independent School District's basic financial statements and have issued our report thereon dated September 21, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report.

### Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Middlesboro Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Marr, Miller & Myers, PSC

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### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Middlesboro Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements.

In addition, we noted other matters involving the internal control and its operation that we have reported in a separate letter dated September 21, 2012 included with this report.

This report is intended solely for the information and use of the Board, management, others within the District, the Kentucky Department of Education, Kentucky State Committee for School District Audits and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Marr, Miller & Myers, PSC*

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 21, 2012

Members of the Board of Education  
Middlesboro Independent School District  
Middlesboro, Kentucky

### Compliance

We have audited Middlesboro Independent School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Middlesboro Independent School District's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Middlesboro Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

# Marr, Miller & Myers, PSC

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## Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance, is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management, others within the District, the Kentucky Department of Education, Kentucky State Committee for School District Audits and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Marr, Miller & Myers, PSC*

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September 21, 2012

Members of the Board of Education  
Middlesboro Independent School District  
Middlesboro, Kentucky

In planning and performing our audit of the financial statements of the Middlesboro Independent School District for the year ended June 30, 2012, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of some items that go beyond internal control related matters that are being communicated for the benefit of management to improve operational and administrative efficiencies. Our comments and recommendations, as well as the action to be taken by the District, accompanies this letter. We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss this in further detail at your convenience, to perform any additional study of the matters, or to assist you in implementing the recommendations. This letter does not affect our report dated September 21, 2012 on the financial statements of the Middlesboro Independent School District.

*Marr, Miller & Myers, PSC*

Certified Public Accountants

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
Middlesboro, Kentucky

MANAGEMENT LETTER POINTS  
June 30, 2012

MONITORING FUND-RAISING

The current year audit showed improvement in the area of monitoring and reporting of fundraisers. The responsibilities of the sponsor of the events should continue to be reinforced, and include:

1. Monitoring of the fund-raising activities using Fund Raiser Worksheets (Form F-SA-2B).
2. Upon completion of the fund-raising activity, complete the Fund Raiser Worksheet (Form F-SA-2B) and Multiple Receipt Form (Form F-SA-6) and turn in to the School Treasurer.

The above forms are available in the "Accounting Procedures for Kentucky School Activity Funds" (the "Redbook") prepared by the Kentucky Department of Education.

DISTRICT ACTION

The Superintendent and Finance Officer, along with the school principals and bookkeepers, will continue monitoring all fundraisers in the various schools. Additional "Redbook" training will be held for all school principals and bookkeepers.

DISTRICT COMMENTS

A "Redbook" session was held subsequently for additional training on the reporting and monitoring of fundraisers and booster/support organizations. Various sponsors were encouraged to attend.